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## THE INTERNATIONALISATION OF BUSINESS ANGEL INVESTMENT ACTIVITY: A REVIEW AND RESEARCH AGENDA

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### Abstract

Prompted by the recent publication of two practitioner-led and oriented books profiling the global expansion of the business angel investment phenomenon, this paper reviews the evidence for the internationalisation of this increasingly important source of entrepreneurial finance. As business angel activity grows in prominence in emerging markets in particular, challenges are identified in terms of the definition of the phenomenon, the importance of institutional voids in shaping the development of this activity, and the role of cultural constraints in legitimising it. The paper identifies a tension between universalist and contextualist accounts of the emergence of this market which has implications for both future research and policy formation.

**Key words:** business angel investment; internationalisation; emerging markets; institutional voids; contextualism; universalism

### Introduction

Business angel investing – the provision of, usually, equity investment capital to unquoted new and growing entrepreneurial companies by unconnected individuals – is not a new phenomenon: for example, it underpinned the funding of the Statue of Liberty (Khan 2010), financed the 1903 start-up of the Ford motor company (Conlin 1983) and was a feature of the emergence of industrial capitalism in nineteenth century England (Rutterford and Maltby 2006; Maltby and Rutterford 2006). However, systematic research into the phenomenon is much more recent, and can be traced back to the research of Wetzel (1983) in New England and a series of studies funded by the US Small Business Administration in the 1980s (Aram 1987; Gaston and Bell 1986; 1988; Ou 1987).

Two trends can be identified in the 30 or so years of scholarly and practitioner interest in business angel investment. First, there is a well-established record of popular interest in the phenomenon of business angels, given their demonstrated importance in the entrepreneurial process, which is reflected in a stream of books, including those reviewed here, on the topic aimed at entrepreneurs and investors (eg Benjamin and Margulis 1996; 2005; Coveney and Moore 1998; van Osnabrugge and Robinson 2000; Amis and Stevenson 2001; May and Simmons 2001; Hill and Power 2002; Rees-Mogg 2008; Hargreaves 2013; Gregson 2014; Rose 2014). Second, and more recently, there has been a growth of interest in and research into business angel activity internationally: while most of the early research on the topic was confined to North America and Western Europe (United Kingdom and Sweden in particular) (Harrison and Mason 1992; Landström 1993), there was sufficient evidence emerging even in so-called first generation studies of the attitudes, behaviour and characteristics (ABCs) of business angel investors to conclude that angel investing was a global phenomenon (Kelly

2007). This included studies undertaken in Finland (Lumme et al 1999), Norway (Reitan and Sørheim 2000), Canada (Riding 1993), Germany (Brettel 2003; Stedler and Peters 2003), Australia (Hindle and Wenban 1999), Singapore (Hindle and Lee 2002) and Japan (Tashiro 1999). While research on Asian BAs has continued to focus almost exclusively on the developed economies of Japan and Singapore (Kutsuna & Harada 2004; Wong & Ho 2007), recently researchers have begun to examine BA investing in emerging Asia (Scheela 2016). This includes studies in China (Xiao & Ritchie, 2011; Xiao & North, 2012; Wang et al 2016), Indonesia (Scheela, 2014), Philippines (Scheela & Isidro, 2009), Thailand (Scheela & Jittrapanun, 2012), Vietnam (Scheela, 2014, Scheela et al., 2015), and Malaysia (Harrison et al 2016). Additionally, business angel research has extended, as part of a wider interest in entrepreneurial finance, to Latin America (Gonzalo et al 2013; Romani and Atienzo 2016), and in particular to Chile (Romani et al 2013) and Brazil (Andreassi et al 2007; Arruda et al 2013; Rossi and Martelanc 2013), and to sub-Saharan Africa (Lingelbach 2016).

### **International perspectives on business angel investing**

These trends (practitioner oriented publications and the internationalisation of business angel research) have come together in two recently published edited collections which chart the internationalisation of business angel research. Both books differ from other recent reviews (eg Landström and Mason 2016) in being authored primarily by practitioners and industry experts rather than by academic researchers, and in being targeted at a non-academic audience. Although differing in geographical coverage and topic scope, both books share a common focus and aspiration.

**John Lo (editor) (2016) *Angel investing in Asia-Pacific: a guidebook for investors and entrepreneurs*. Bingley, UK: Emerald Group Publishing, pp. +280.**

The rationale for John Lo's collection is predicated on the recognition that angel investment and finance have been spreading from Silicon Valley to other parts of the world, including Asia, at an accelerating pace. Notwithstanding this, there have been few attempts to document this phenomenon and examine the hows and whys of startup financing in the Asia-Pacific region. *Angel Financing in Asia Pacific* addresses this knowledge gap by approaching the subject matter from two angles. First, from an essentially journalistic angle, it aims to capture the current status and recent developments in a number of countries or territories in Asia. In each country report (of which there are 12 in total divided into five groups according to the state of development of the angel market), the respective contributing authors, most but not all of whom are practitioners active in their national angel markets, trace the background, trends, and future outlook of technology and innovation driven developments and related angel investment activities. The second part of the book takes a more analytical and prescriptive angle to the subject, by examining key issues in the business angel investment process, and on the basis of this, in the third substantive part of the book, making recommendations, providing analysis, and suggesting new approaches to startup financing in the Asia Pacific region. The intended readership for Lo's book is a broad one, encompassing business angels already active in the region as well as those from abroad, prospective angel investors, entrepreneurs and startup founders, university and MBA students, policy makers, multinational corporations, and the general public who care about innovation, technology and economic growth. For the first four of these audience categories, interest is likely to be greatest in the investment process material in the second half of the book; for the other four audience categories the country profiles in Part 1 may well prove of more interest and insight into market profiles and policy interventions, from which

opportunities for cross-country learning and adaptation may be identified. To these audience categories may be added academic researchers with an interest in entrepreneurial finance: although some of the countries profiled here (eg Singapore, China, Japan, Australia) have been the subject of some research, others have received little or no attention, and Lo's book serves as a valuable starting point for new research both empirically and theoretically.

Based on all of this material, Lo concludes that the entrepreneurial ecosystems of many Asia Pacific countries compare less favourably than their western counterparts in one or more respects. First, they have been *late to the party* and angel financing in many Asian countries has a short history of barely two decades or less, with the result that the overall industrial ecosystem is less developed, angel financing activities are less widespread and fund-raising is generally much more difficult in Asia. Second, there is a lack of *successful cases and role models* of tech executives-turned-entrepreneurs, and although these are starting to emerge their collective number and influence are still small. Third, there are *smaller and varied markets* which means rapidly scaling-up businesses need to move beyond the domestic market and to tackle foreign markets to achieve scale. This typically presents greater challenges and involves higher cost. Fourth, is the *persistence of traditional thinking*, including many native, i.e., non-Western, traditional or even authoritarian influences which may be at odds with the process and characteristics of angel investing. Fifth, the region is characterized by *challenging legal and regulatory environments* which vary in their developmental stages and sophistication. Sixth, Asia-based start-ups must deal with *multiple jurisdiction holding structures*, and given that the maturity, transparency, and predictability of various jurisdictions are often uneven and sometimes less than desirable, so the task to set up the legal structure often becomes complex and costly. Seventh, there are *fewer organized angel activities* and angel investment in Asia to date remains informal and individually-based, rather than through organized groups or institutions. Eighth, *exit routes remain scarce*, but as trading markets for private companies and maturing secondary markets for their shares become developed in more Asian markets, the liquidity of angel investors' investments in startups as well as the ability to recycle their risk capital will be enhanced, which in turn would help promote angel investment and the long-term growth of angel financing in the region.

**John May and Manhong Mannie Liu (editors) (2016) *Angels without borders: trends and policies shaping angel investment worldwide*. Singapore, World Scientific Publishing, pp. xii+295**

John May and Mannie Liu have a similar rationale for their collection. *Angels without borders* covers angel investing activities in a diverse array of economies—small and large, developing and advanced, and those with high-tech and traditional sectors. The authors argue that this book is justified on a number of grounds. First, they argue that angel investing is not “going global”; it is already a global phenomenon, and provide 26 country profiles to illustrate this. However, angel investing is already more widespread than this collection suggests – with the exception of Colombia, South Africa, China, Hong Kong and Singapore, there are no profiles from Latin America, East Asia or Africa. This is where Lo's book, with its focus on Asia-Pacific, neatly complements May and Liu. Second, given increased interest in investing across borders (an emerging trend unfortunately not more formally addressed in the book, an oversight shared with the extant body of business angel research) angels need to understand better the economic policies, tax requirements (or incentives) and characteristics of other countries and regions. Third, business angels play an important role in changing the “ecosystem” of risk capital into a much larger, more efficient and more systematic approach, one that informs cultural attitudes about entrepreneurship, identifies promising talent and ideas as early as possible, and creates formal platforms (e.g., clubs, incubators, and accelerators) to make their activities more viable. As such, it becomes central to helping entrepreneurs through the so-called valley of death (Figure 1).

Fourth, policymakers and the media are increasingly paying more attention to angel investors, partly in response to the dot.com boom of the late 1990s followed by the bust of the mid-2000s, which highlighted the role of angel investors in the entrepreneurial process, and partly in response to the 2007/2008 global economic crisis that led to angels being viewed as less of a novelty and more of a necessity. The result has been a profusion of public policy experiments with incentives, incubators, accelerators, strategic alliances with schools and industries, as well as public-private partnerships for due diligence and co-investment.

In terms of internationalisation, May and Liu emphasise that through the early 2000s, angel investing was largely a domestic activity. Over the past decade, however, angel investors have started to think and act more globally. They attribute this to two primary considerations. First, a growing body of research and practical experience began to reveal that some nations, e.g., Israel, Scotland, the United States, were consistently outperforming others in commercializing innovative ideas and providing capital to start-ups, encouraging emerging economies in particular toward that model of angel-led entrepreneurial development as a sound long-term strategy, and reflected in the borrowing and replication of support schemes or laws from other countries, often without amendment. Second, they highlight the role of transnational initiatives such as the European Business Angels Network (founded in 1999) and the Business Angel Network of Southeast Asia (2001), which began to coalesce to promote their activities, formalize cross-pollination of ideas and encourage deal flow.

May and Liu additionally include several chapters on key emerging trends in and affecting angel investment worldwide, each of which represents a fruitful area for further research. First, they highlight the growing role of women investors, rising from five per cent of angel investors in the US in 2004 to 20 per cent a decade later, and reflected in the growth in the number of women angel groups being formed. Second, they highlight the growing impact of technological changes, such as crowdfunding platforms, in creating new opportunities for innovative ideas and start-ups, and inculcating an entrepreneurial culture that is broader and less tied to sectors traditionally favoured by angels. In this, and in contrast to the position taken by many in the angel community that equity crowdfunding is the latest manifestation of angel investing, they see crowdfunding as complementary to not a substitute for angel investment. How this relationship evolves is, of course, an important topic for research, not least because of the policy interest across the world in developing and supporting this (Tuomi and Harrison 2017). Third, May and Liu point to the potentially more profound growing awareness that the capital, tools, and networks of angel investors can be used for societal and environmental change under the banner of impact investing. As they observe, a large proportion of angels, perhaps most, invest at least in part for reasons (mostly intangible) that have little to do with capital gains, including: a mentor-mentee relationship, a chance to give back to their community, the satisfaction of seeing a friend or relative succeed, or the chance to participate in a cause larger than the success of a firm.

## **Conclusion**

These two books, with their different emphases but common concern to chart the internationalisation of business angel investment activity, reinforce the conclusion of a recent review of international business angel investment research, which has suggested that while there were many similarities between the ABCs of angel activity in these emerging markets and those in Western economies, there were also significant differences (Landström and Mason 2016). They both address issues of importance and, while not research driven, provide much useful background to new research directions.

First, there are issues of definition. The conventional understanding of a business angel is of an individual investing their own capital in an unquoted business with which they have no prior (especially family) connection and to which they make a value added contribution through active involvement in the business. However, the growth of angel syndicates and equity crowdfunding has thrown doubt on the continuing relevance of this definition in the West (Harrison and Mason 2008; Harrison 2013; Mason et al 2016; Tuomi and Harrison 2017). Furthermore, the multi-country Global Entrepreneurship Monitor (GEM) survey, which has a significant influence on shaping national entrepreneurship development policies, has blurred the distinction between the 'classic' disinterested business angel investment and kinship and affinity-based 'family and friends' money (Bygrave et al 2003; Maula et al 2005; Wong and Ho 2007). While the estimates vary from analysis to analysis, no more than 10 per cent of informal investment reported in GEM may meet the definition of classic business angel investment. Nevertheless, it is clear from many of the country profiles presented in these two volumes, and specifically in the case of emerging markets, that within the ambit of 'angel investing' per se social (eg *guanxi*) relationships and familial ties are relatively more important at all stages of the investment process. This raises an important question as to the extent to which so-called angel investment in these economies is in fact 'affinity capital' and subject to the influence of different investment criteria than in the West.

Second, and notwithstanding the sometimes very active involvement of government in supporting the development of the business angel market eg through support for the establishment of business angel networks and provision of tax incentives for investment, there are concerns that the development of the angel market is relatively constrained by institutional weaknesses. These may reflect the general underdevelopment of the entrepreneurial ecosystems in these economies (Stam 2015; Spigel and Harrison 2015), but significantly they reflect the underdevelopment of the institutions (eg well-developed and protected property rights, efficient and transparent capital markets and supportive regulatory and taxation regimes) necessary for angel investment to flourish. Nevertheless, and confirming recent research on sub-Saharan Africa (Lingelbach 2016), there is evidence from some of the country profiles that angel activity can exist in economies with very weak formal institutions (often led by expatriate investors based outside the country), that angel activity can exist where the informal institutions are weak (as reflected, for example, in high levels of collectivism or uncertainty avoidance), and that the prior existence of significant venture capital activity is neither necessary nor sufficient for the emergence of angel activity.

Third, there remain significant cultural issues that constrain the development of the business angel investment market outside the advanced Western economies, including issues of risk aversion, trust (or more specifically the absence of trust) and the lack of transparency in financial markets, which have their origins in the existence of institutional voids in these markets and result in an even more informally organised and invisible market than in the West.

Collectively, these three issues pose both a challenge and an opportunity for further research: a challenge, in terms of moving beyond anecdotal evidence and micro-samples of convenience to more robust and reliable market and investor data; an opportunity, in providing access to angel investment in very different economic, social, political, cultural and institutional environments in a way that might challenge what has now become the conventional wisdom about angel investing.

Based on these issues over definition, institutional weaknesses and cultural values, the materials in these books not only provide very valuable insights into the internationalisation of business angel activity and processes in a diverse range of contexts, but also raise the issue of the extent to which the evolution of the angel investment phenomenon in emerging markets will follow a similar pattern to that in the West, or will develop in a different direction. As in discussions of institutional venture

capital (Wright et al 2005) the issue is the tension between universalist accounts of angel investment activity, reinforced by systematic knowledge transfer from more developed western markets (for example, through the work of the US-based Angel Capital Alliance, which has an extensive and long-standing commitment to internationalisation), and a contextualist view that sees market evolution and the emerging shape of the business angel investment as a local (ie national) response to local conditions (Jack et al 2013). One interesting implication of the material presented in these two books is that although they are implicitly predicated on a universalist view, they do in fact point to a more contextualist perspective. As such, this raises more questions than it answers for researchers and policy makers alike seeking to understand and develop these markets.

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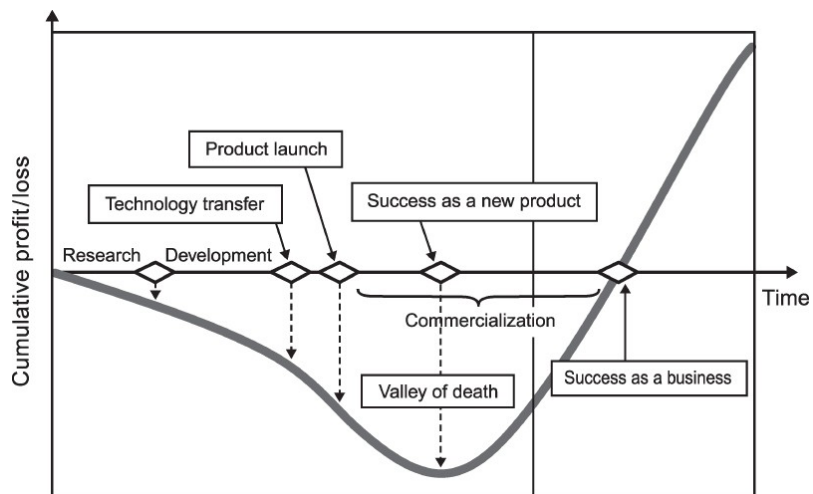
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Figure 1 Start-up financing and the entrepreneur's 'valley of death'



Source: May and Liu (2016, 4)